



Christchurch City Council

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE AGENDA

WEDNESDAY 28 JUNE 2006

AT 10AM

IN THE MAYOR'S LOUNGE, CIVIC OFFICES

Subcommittee: Councillor Bob Shearing (Chairman), The Mayor, Mr Garry Moore, Councillors Graham Condon, David Cox and Gail Sheriff, Messrs John Hooper and Michael Rondel.

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28. 6. 2006

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- 1. APOLOGIES**
- 2. MINUTES OF PREVIOUS MEETING - 7 JUNE 2006**

Attached.

3. AUDIT ISSUES FROM PREVIOUS MEETINGS

General Manager responsible:	General Manager Corporate Services, DDI 941-8540
Officer responsible:	G Nicholas
Author:	G Nicholas

PURPOSE OF REPORT

1. The purpose of this report is to respond to issues raised by the Audit & Risk Management Subcommittee at the previous meeting:
 - Air points from business travel
 - Business class travel.
 - Private use of cell phones

EXECUTIVE SUMMARY

2. The current Council policy is that all air travel should be at least cost to the Council. Air points earned by staff on Council travel accrue to them as individuals. Although staff could be required to use these points for future business travel, it is impractical to actively monitor or enforce this.
3. The HR policy states that "Council will only fund economy class travel" for staff. When staff have travelled by other than economy class, the difference has been funded personally. The policy among other Councils sampled and guidance provided by the OAG generally allow travel on a basis other than economy class for flights beyond a certain duration. We have amended our policy to reflect this better practice.
4. Cell phone private use: This relies on an "honesty" system. Although another recording system for private calls is available from the supplier, this does not appear to offer significant advantages for the additional administration required.

STAFF RECOMMENDATIONS

It is recommended that the Subcommittee receive the report.

BACKGROUND ON AUDIT ISSUES

Air Points:

5. The Subcommittee requested that the feasibility of introducing a system for recording air points credited to staff and elected members for Council related travel, and the possible utilisation of such air points for future Council related travel be investigated.
6. I have researched several other Councils on this matter and examined the air points system with the Council's travel agent.
7. **Air Points are individual based:** The airlines used by the Council do not have corporate air points schemes, and all points are accumulated on an individual basis regardless of whether they paid for the flight themselves ie air points accrued by one person's travel cannot be applied to that of another staff member. Hence the benefits are only realisable by staff that travel frequently on Council business.
8. Individuals can top up their air points account with credit card points in some cases. Travellers' private travel earns air points that are also credited to the same individual account, which the Council has no interest in. Distinguishing between private and business earned points becomes difficult.
9. **Confidentiality:** Requests made to air lines by our procurement team for reports on air points credited have been declined on the basis that air points relate to individuals and are therefore confidential and private to those individuals.

3 Cont'd

10. Staff who accrue air points do not need to have the Council's travel agent log air points at the time of booking and can later present their "receipt" to have these credited outside of the Council's booking process. The travel agent could assess if there was "potential" for air points, however they would not know if they had been actually received.
11. **Cost to join the scheme:** Travellers are required to pay a one-off fee to join the air points scheme (\$50). If the Council wanted to make use of these points, staff may feel that the Council should reimburse the cost of membership.
12. **Points only apply to higher cost flights:** Air points tend to accrue only on the top tier fares rather than the cheapest fares. Instructions to Council travel co-ordinators are that the cheapest fares practical are to be used when booking travel for staff. The restriction on staff booking their own travel is an attempt to avoid staff selecting flights that enable them to accrue the maximum private air points. Staff in may be able to override this control by later booking of flights.
13. **Other Councils' Policies:** Wellington City Council and Waitakere City Councils both have policies that state that "air points earned on business travel remain the property of the Council". However both have no monitoring or audit process to ensure that staff apply these points to Council travel rather than private travel. There seems little benefit in putting such a policy in place if it cannot be effectively monitored or enforced.
14. **Other Organisations:** From discussions with the Council's travel agent (Orbit Travel), no client of theirs is known to have effectively utilised air points to reduce company travel costs.

FINANCIAL AND LEGAL CONSIDERATIONS

15. From discussions with the Council's travel agent, the potential benefits in air points accrued over September/October 2005 was approximately \$1,350 per month. Assuming this represents average travel activity, this equates to about \$15,000 per year in potential saving if these points were able to be fully utilised.
16. The Council could put in place a policy such as Wellington and Waitakere currently have which requires staff to apply their air points to Council travel. However this could be no more than a recommendation to staff, as the Council has no effective way of monitoring or enforcing a policy of this nature which is cost-ineffective and likely to cost more in other ways.

PREFERRED OPTIONS

17. Maintain the status quo.

BACKGROUND ON AUDIT ISSUES

Business Travel:

18. **Existing Council Policy:** The Council HR policy on staff travel states: *"All travel will be arranged, at least cost to the Council, through the Corporate Services unit ... Council will only fund economy class travel"*.
19. **Health & Safety Issues:** Deep Vein Thrombosis (DVT) is the formation of blood clots in the major veins and has been referred to in the media as "economy class syndrome".
20. The Council's Health & Safety officer, Melissa Haskell, indicates that despite this reputation, the condition is caused by inactivity and can occur even travelling in Business Class. Travellers with certain risk factors can take various prevention measures including medications to guard against the risk of DVT.
21. The GM Human Resources states that a more important consideration is that wherever possible, travellers should arrive at least 24 hours in advance of overseas work starting in order to catch up on sleep and adjust to the new time zone and climate: "we need to consider the costs of sending someone earlier (hourly rate, accommodation) verses the extra cost of business class."

3 Cont'd

22. Deep Vein Thrombosis would not be covered by ACC legislation as it does not meet the definition of "accident" nor "work-related gradual process, disease or infection" therefore our liability as an ACC accredited employer would be unaffected if an employee contracted this condition.

What others suggest:

23. **The Office of the Auditor General:** The report "*Review of Chief executive credit card expenditure*" issued in December 1994, commented on the policies adopted by central government departments. The OAG saw as reasonable that flights beyond Australia could be upgraded to Business Class if the employee will be required to assume duties soon after arrival following a lengthy journey. No hourly flight duration was suggested. The OAG is due to review sensitive expenditure by public bodies in the near future .
24. **The Institute of Internal Auditors NZ Inc** issued a publication in 1996, "*A Management Guide to Discretionary Expenditure*" that listed the results of their research into what was "common practice". This suggests that some organisations have a policy requiring all travel to be by economy class unless exceptional circumstances prevail. The publication suggests that the CEO or their delegate normally is the one who can approve "exceptional circumstances" which may include where an employee is required to assume duties soon after arrival following a lengthy journey (nine hours constitutes a common yard stick).
25. **The Council's travel agent** Orbit travel state that many of their clients operate under the rule that flights over five hours duration entitle the traveller to Business Class travel if they are expected to work the following day. These tend to be flights beyond Australia or the South Pacific.
26. **The Crown Company Monitoring Advisory Unit** responsible for SOEs and other central government owned organisations issued "*Directors Fess and Reimbursement Guidelines*" in February 2004. This states that air travel of less than four hours uninterrupted travel should be economy class rather than business class.
27. **Other City Councils in New Zealand:** The following table lists the rules used by several other large Councils:

Business Class travel allowed if:	Wellington City Council	Auckland City Council	Waitakere City Council
Destinations	Beyond east coast of Australia	Pacific Premium class allowed on international except to Australia (economy). This is available on Air NZ only.	Not specified
Minimum length of trip before Business class is possible	Exceeds 8 hours	Exceeds 7 hours	Exceeds 6 hours
Approval	1. In writing by GMs for staff. 2. Council resolution for elected members	1. CEO to approve international travel and any business class travel based on individual itinerary. 2. GMs approve Australian based economy travel	Not specified
Other conditions	1. Case by case basis. 2. No recuperation period is available on arrival.	1. Business class can be used if all travel points are reused on Council business. 2. Needs CEO approval	Exceptions granted because of health reasons or a very close relationship between the time of arrival and timing of events.
Comment	This policy is currently under review.	This policy is currently under review.	

3 Cont'd

FINANCIAL AND LEGAL CONSIDERATIONS

28. As a general rule, Business Class flights are approximately three times more costly than economy class.
29. From an analysis of flights over the past 12 months, if applying the proposed rule that "flights beyond Australia would be taken as Business Class", ie flight legs over six hours duration, the cost of travel of staff only would have increased from \$26,700 to \$86,427 being a difference of approximately \$60,000 over what it actually cost the Council during this period.

PREFERRED OPTIONS

30. Note the change to travel policy to allow staff to travel other than by economy class where:
 - The travel involves a flight leg that exceeds 10 hours duration and the person is expected to be working with in 24 hours of arrival at their final designation *or*
 - There are other health or business reasons for the person to travel other than by economy class *and*
 - The upgrade of travel is approved as part of the approval by the CEO for international travel.

BACKGROUND ON AUDIT ISSUES

Private Use Of Cell Phones:

31. **Current process:** Units are required to have in place a process whereby staff cell phone schedules are issued to staff each month and expected to be returned with private calls marked and with a payment (or receipt for payment) attached. The process is subject to periodic audit. The process relies on staff honestly in declaring private calls, as it is difficult for another person to determine which calls may be private. The Council policy allows *reasonable* use accepting that staff who do not operate out of the fixed locations or who work irregular hours should be able to contact family etc.
32. **Recording:** Calls made on cell phones or to cell phones from Council landlines are recorded in a database and are able to be accessed and analysed if required.

OPTIONS:

33. **Duel billing:** Telecom offers a duel billing system whereby pushing a certain key when a private call is made, the call will appear on a separate account in the name of the employee. The employee would then be required to pay this direct to Telecom. The Council still remains liable for the account if the employee fails to pay however.
34. Advantages:
 - The employee makes the decision at the time as to whether the call is private rather than trying to remember when the account arrives.
 - Less administration by collecting and chasing up account schedules.
35. Disadvantages:
 - Text message will always appear on the Council account whether private or business (about 20% of accounts have these and the assumption is that these tend to be private). Hence if staff were required to pay for these, there is still administration effort required around collecting these accounts.
 - There would still need to be follow-up on private accounts that staff did not pay, as the Council would then be re-billed for these by Telecom. Given the monitoring currently required, this could become quite a task, as employees often tend to regard cell phones accounts as a low priority task.
 - There is no guarantee that staff will operate the process correctly or be more honest or diligent in identifying private calls than with the current arrangement.

PREFERRED OPTIONS

36. Maintain the current process with occasional auditing of compliance.

4. INTRODUCTION TO THE INTERNAL AUDIT PARTNER

5. DRAFT INTERNAL AUDIT PROGRAMME FOR THE 2006/07 YEAR

General Manager responsible:	Chief Executive, DDI 941-8558
Officer responsible:	Chief Executive
Author:	Bob Lineham

PURPOSE OF REPORT

1. The purpose of this report is to present the proposed Internal Audit Operational plan for 2006/07 and the Strategic Plan for three years to 2009 for the Subcommittee's information.

EXECUTIVE SUMMARY

2. The plan has been prepared by PricewaterhouseCoopers based on consultation with Council management and a review of key documents. The final plan presented has been approved by the Chief Executive. A copy of this plan will be separately circulated.

FINANCIAL AND LEGAL CONSIDERATIONS

3. Budget provision has been made for the work planned.

STAFF RECOMMENDATION

That the information be received.

6. REPORT ON INTERNAL AUDIT ACTIVITY: FOUR MONTHS TO APRIL 2006

General Manager responsible:	General Manager Corporate Services, DDI 941-8540
Officer responsible:	Senior Internal Auditor
Author:	G Nicholas

PURPOSE OF REPORT

1. Internal audit is an independent review function to provide management with assurance that "Council objectives are being achieved within an acceptable level of risk". In doing this we provide two perspectives on performance:
 - (a) Past performance – (*Audit*). Are activities achieving the intended results, to the required standards, in line with Council policy, in compliance with legal requirements?
 - (b) Future performance – (*Risk Management*). Are risks well managed and appropriate systems in place to assure the desired results are reasonable obtainable and able to be monitored?

EXECUTIVE SUMMARY

2. The results of audits are reported back to General Managers with a copy to Audit NZ. Where shortcomings or risk exposures are highlighted agreement is reached with the team's leader/unit manager on an agreed course of action to improve future performance. This report contains the report back on audit activity up to the end of April 2006 (four months). From May 2006, the function has been managed by PricewaterhouseCoopers (PWC) under a co-sourcing agreement. Activity from this point onwards will be reported to the next Audit Committee meeting by PWC.

6 Cont'd

THE 2004/5 PROGRAMME

3. A draft internal audit programme was submitted to the Audit and Risk Management Subcommittee in June 2005 and was signed off without any amendments at that stage. There have been some amendments subsequently suggested, such as substituting in a number of financial audits around issues raised by Audit NZ in the last financial audit, such as:
- Protected Disclosures Act compliance
 - Balance sheet reconciliations
 - Fixed asset transactions
 - Gifts, bequests and sponsorships
 - Electronic payments processing

These have been accommodated by delaying audits such as ITS network protection and the proposed Baldrige criteria audit that is now irrelevant given that the Council is taking this up formally.

OVERALL VIEW OF CONTROL AND RISK MANAGEMENT

4. Issues raised during the four months tended to relate to existing processes slipping rather than a lack of or poor process. The key issue with payroll is around timesheet process at team leader level rather than the centralised processing.
5. The inadequate nature of the existing service agreement with City Care Ltd has been highlighted in several areas. A new contract is being formulated which will address the issues raised.

WORK COMPLETED DURING THE FOUR MONTHS TO APRIL 2006

6. *Balance Sheet Reconciliations (in progress):*
Description: To ensure that reconciliations are being completed and to perform substantive tests to verify the validity of balances.

Issues raised:

- CSU staff are significantly behind in completing reconciliations
- A number of unexplained balances that date back to the previous financial system (pre-SAP)
- A need to rationalise the balance sheet and clarify the purpose for various accounts.

7. *Water Supply Activity:*
Description: key processes and risk mitigations associated with the supply of water to customers.

Issues raised:

- Water connections are under performing with only 59% of connections meeting the required time frame.
- The bonus/penalty provisions with in the City Care maintenance contract are not being applied fully.
- There are no specifications or standards for the maintenance of the grounds of pumping stations and other head works assets around the city.
- There is no longer anyone with the responsibility for emergency management/business continuity preparations with in the Unit.

Actions:

- The resourcing of the water connections area is being reviewed.
- A new contract is being set up with City Care which will have a tracking mechanism for changes.
- Grounds maintenance standards will be specified in the new contract.
- The Operations Manager is being given responsibility for emergency management.

6 Cont'd

8. *Waterways and Wetlands Activity:*

Description: key processes associated with the management and maintenance of waterways and wetlands.

Issues raised:

- The process around protection of waterway developments using covenants appears ineffective. This is especially so when the ownership changes during the process.
- Some of the hydrometric modelling for storm water is up to seven years old creating a risk that new developments are based on invalid data.
- The existing maintenance contract has experienced changes in the payments made that have not been formally documented.
- Several of the key performance indicators cannot be independently verified and suffer from a lack of definition.
- One of the remedial actions forming part of the resolution from the October 2000 storm report has not been completed, although this may be of only minor significance.

Actions:

- The protection of waterways process is the subject of a portfolio group in September 2006. Future pre-survey agreements will be subject to a caveat to ensure that it is enforceable against the property itself.
- Additional resources have been applied to the modelling area included an additional staff member and upgraded software. This will be brought up to date.
- A new maintenance contract has been formed which incorporates these changed aspects.
- The KPIs are to be revised as part of the management of the LTCCP process.
- The remaining action point from the storm report will be followed up as to whether it should be completed or not.

9. *Gifts, bequests, sponsorships (in progress):*

Description: the processes used across the Council to handle gifts and bequests and to seek funds from external agencies.

Issues Raised:

- A need to highlight the difference between the Art Gallery (CCC) and the Art Gallery trust (private charitable trust) in publicity material so that the public are clear to whom they are giving funds.
- Consider whether recording sponsorship in kind would enhance financial reporting. International Accounting Standards allow this to be done.
- The Council holds bequests of over \$1m presently (ranging from large amounts to those less than \$1k). Given that the original documentation for most of these can no longer be located, the future application of these funds needs review.
- There is no accounting policy for gifted assets and no consistent process for their capture into the Council asset or financial records.
- There is no Council wide policy or guidelines on sponsorship so there is a risk that sponsorship is uncoordinated or inconsistent eg there is no policy on whether the Council will accept alcohol company sponsorship for events. Could this be inconsistent with the Council imposing alcohol bans on parts of the city?
- The Gallery sponsorship agreement is silent as to how cancellation of sponsored events will be resolved. This agreement should be reviewed by the legal team.

Actions:

- An accounting policy on gifts and sponsorship in kind will be formulated.
- The treatment of bequests held is being investigated.
- Other actions are still being worked through.

6 Cont'd

10. *Peace Bell Fund*

Description: financial audit of the incorporated society associated with the erection of a peace bell in the Botanical Gardens. Audit required to obtain Community Trust funding.

11. *Protected Disclosure Act compliance:*

Description: a review of compliance with the legislation and how this may work more effectively from an operational point of view.

Issues raised:

- Council policy was out of date
- Policy not regularly published to maintain staff awareness

Actions:

- Legal services currently amending policy

12. *P-cards/Purchasing*

Description: to evaluate the controls associated with P-card purchasing and purchasing. Note that due to implementation delays only a limited number of P-cards are in use and the purchasing policy has not yet been issued.

Issues raised:

- Setting up a process to ensure that cards are returned when staff leave the Council's employment.
- Improving the security of the process to distribute new cards so that a card is less likely to be intercepted by unauthorised people.

Actions:

- Both processes to be set up by CSU

13. *Electronic Funds Transfer*

Description: the processes whereby the Council pays payroll creditors and investments using back software based on Council PCs.

Issues raised:

- The records of security had not been maintained with many staff with access having left the Council.
- There was some instances of the security giving staff the capability to both initiate and approve payments transactions (no evidence found of this actually having occurred).
- Reasonable processes now in place for changes made to bank accounts, but a need to have changes independently checked back to the source authorisations.

Actions:

- Bank has been informed of new authorities.
- Some restrictions have been put in place and security altered to enforce segregation of duties.
- Request for a better SAP reporting to allow bank account changes to be reviewed.

14. *Payroll Processes*

Description: a review of the processes from appointment of staff through to payment to bank accounts.

Issues raised:

- The reporting to detect potential over payments to staff that have not submitted time sheets is run only intermittently.
- There was still a small group of staff who self approve their own time sheets.
- A continuing issue of time sheets not being approved in a timely manner.

6 Cont'd

Actions:

- Report to detect overpayments to be run fortnightly in future.
- Correct approval procedures have been put in place where needed.
- The training material for CATS approvers will be modified to ensure approvers know how to capture all unapproved time.

15. *Review of Staff Expense Claims*

Description: A review of sample claims made by staff to ensure that policy is being followed and that claims appear legitimate.

Issues: no issues

Actions: None

WORK PROGRAMMED FOR JUNE QUARTER AND BEYOND

16. Refer to the paper "Internal Audit strategy and plan" 3 years to 2009 – PWC.

ISSUES OUTSTANDING FROM PREVIOUS AUDITS

17. *Community Housing*

Description: an audit of the Council's social housing activity with an emphasis on performance against key objectives and the effectiveness of control associated with the key risks identified in the risk profile.

Progress to date:

- A more vigorous process as well as closer monitoring and reporting of Housing Officer performance in the debt area has been put in place.
- BCP will be revised shortly.
- There is now a better process for monitoring progress on annual visits to tenants.
- The level of bonds held is being examined to see if it should be raised to the statutory maximum.
- Reminders to staff to require credit checks of new tenants.
- A policy is being developed on assessing tenants whose circumstances have changed and may no longer meet the criteria.

18. *Water Billing*

Description: the process whereby the Council reads the meters and bills non-domestic consumers for water usage above their annual allowance based on the water rate.

Progress to date:

- Additional staff are being trained to assist with aspects of the meter records.
- Greenspace will be reviewing the policy and practice around charging lessees for water use in 2006.
- A check query is now being run each quarter to pick up users that have not been billed. The current users that have not been billed are being investigated.
- Remissions are now only given in terms of the delegations provided.

19. *Balance Sheet Reconciliation Processes:*

Description: quality assurance for the CSU project to set up ongoing reconciliation of all balance sheet accounts and ensure the integrity of the financial statements.

Issues raised:

- Few reconciliations exist and many more are not suitable to provide substantive evidence for financial audit.

Actions:

- Still in progress. A template has been produced and staff accounts are being reviewed as the reconciliations are complete.

6 Cont'd

20. *Greenspace – Farm Operations (carry over from Sept quarter)*

Description: an audit of financial controls associated with the farm including purchasing, stock control and revenue.

Progress to date:

- Farm manager is no longer employed and under Police investigation.
- Claim has been made on insurers for losses
- RFP has been issued for interests in leasing farm land for grazing

21. *Libraries – Lifelong Learning*

Progress to date:

- Discussions are underway to obtain renewed funding from the MOE at present.
- Quality assurance standards are being developed for the whole network based on the South Learning Centre. Good practice for learning centre programmes is developed for the three centres and they are coordinated from the South Learning Centre. QA standards for all library learning programmes will not be formally established until a permanent lifelong learning manager is appointed. This has been delayed for several months while the libraries unit undertakes an accountability review.

22. *Libraries – Lending Activity*

Progress to date:

- The library has commenced a debt management project to review this issue. A paper will go to the Exec Team after Easter.
- The library has a select team working on our '2025 Strategy'. This strategy looks at locations of library services - in particular buildings, which includes volunteer libraries. A plan is being developed in 2006.

23. *Recreation Facilities – Business Continuity*

Progress to date:

- The common database of tutors and lifeguards is working informally. It will be formalised as a result of a business improvement process beginning February 2006.
- Staff lists recently reviewed and up to date. This will be included in the business improvement process beginning February 2006.
- The communications response for sudden closures is managed through the call centre and was tested in the recent snowstorm.
- Essential supplier lists are being incorporated into our asset management plan in development.

24. *Wastewater Activity*

Progress to date:

- Estuary Discharge consent - Action taken - ongoing discussions with ECan and DAG. Five actions required:
 1. Lodge variation to current consent (done in late October).
 2. Undertake fish survey in estuary (programmed for December 05).
 3. Develop and implement integrated water sampling programme (programme nearly completed - implementation in 06).
 4. Tune discharge times to maximise tidal cleansing of estuary (completion programmed for early Nov 05)
 5. Trial algae reduction techniques on ponds (methodology for trial to be confirmed by end of December and trial operational by March 06).

6 Cont'd

- Implementation of system to monitor contractor response times - this is partially being addressed through current work on refining the City Care contracts. However it is unlikely this issue will be properly addressed until the new asset management system is implemented. Any interim solution will be temporary and probably labour intensive. Work is continuing slowly on this item but it will be an action for the new contracts manager in CWW to sort out after his arrival.
- Dry weather overflows are often caused by blockages - these are often caused by fats and oils in the sewer. Work is being done on the trade waste billing and bylaw and trade waste enforcement is being tightened to try to reduce the frequency of these events.
- Communications strategy for odour events - a final draft of the process map and associated protocol is being reviewed at present. Should be completed by early December 05. CWW are reporting to Portfolio Group and Council (as required) on major projects every year. These presentations are for the purposes of no surprises and to provide a better understanding of the issues and progress associated with major civil engineering projects.
- A report on Lifelines progress is yet to be completed but is programmed as a paper to the Risk Committee and Portfolio Group in the first quarter of next year.
- Business continuity plans - still needs updating. Is on unit managers' list of things to do.
- Trade Waste Billing - consultants have been engaged and work is progressing on new billing model and amendments to bylaw. Work programmed to be completed by June 06 in time for next LTCCP.

26. *Bonds and Deposits*

Progress to date:

- A process to handle old bonds that have never been claimed has been set up.
- To provide additional security to ensure that disbursements are to valid payees, the Management Accountant will counter sign request for disbursements from the account. *[J Heywood – Sept 2005]*
- A review of the subdivision bond process is underway because the current process falls well short of best practice and is not delivering desired outcomes. The aim of the review is firstly to significantly reduce the number of bonds entered into, and secondly to set up a monitoring system in Worksmart to ensure future bonds are on bring-up so that the work can be inspected and followed up in a timely manner. Due to resourcing problems, old bonds will not be followed up unless a request for a refund is received, as at present. Once the new process is established, it will apply to all bond applications received from that date onwards. *[Feb 2006 - J Donaldson]*

FINANCIAL AND LEGAL CONSIDERATIONS

27. None

7. TREASURY MANAGEMENT REPORT FOR 2005-06 YEAR TO QUARTER ENDED 31 MARCH 2006

General Manager responsible:	Director Strategic Investment, DDI 941-8411
Officer responsible:	Funds Accountant
Author:	Paul Baldwin

PURPOSE OF REPORT

1. The purpose of this report is to report on the management of Council borrowing and investments during the 2005-2006 financial year up to the quarter ending 31 March 2006.

EXECUTIVE SUMMARY

2. The Local Government Act 2002 requires publication of a Liability Management Policy and an Investment Policy. These are included as part of the Long Term Council Community Plan (LTCCP) adopted in July 2004.
3. The Council's policies require periodic reporting to the Council. The Council has delegated reporting requirements to the Council through the Audit and Risk Management Subcommittee.
4. To provide a regular and ongoing review, a Treasury Review Team chaired by the Director Strategic Investment overviews this function. Bancorp Treasury Services Ltd provides independent treasury advice.
5. The attached loan schedule summarise the results of management of the Council's loan debt for the current year up to the end of the March 2006 quarter.
6. The investments schedule will be separately sent to Subcommittee members on completion.

STAFF RECOMMENDATION

It is recommended that the Audit and Risk Management Subcommittee receive the Treasury Management Report for the year 2005-2006 year up to 31 March 2006.

8. CHANGES TO NZ GAAP - COMPLIANT ACCOUNTING POLICIES

General Manager responsible:	General Manager Corporate Services, DDI 941-8540
Officer responsible:	Corporate Finance Manager
Author:	Diane Brandish

PURPOSE OF REPORT

1. The purpose of this report is to make recommendations to the Audit and Risk Subcommittee regarding changes to the current NZ GAAP-compliant accounting policies for the accounts to 30 June 2006.

EXECUTIVE SUMMARY

2. Under the current policy shares in Christchurch City Holdings Limited are revalued on a three yearly basis. Shares in Christchurch City Facilities Limited and Jade Stadium Limited have not been revalued at all.
3. It is proposed that shares in all three subsidiaries be revalued and that this revalued amount be considered as cost for the purpose of the opening balance under NZ IFRS-compliant policies.
4. The note detailing rates of depreciation on restricted assets does not consider planted areas, sealed areas within reserves or structures within reserves. It is proposed that the note be expanded to include those areas.
5. The note on revenue recognition does not mention Development Contributions. It is proposed that the note be expanded to correct this.

FINANCIAL AND LEGAL CONSIDERATIONS

6. Adopting the change to the current NZ GAAP compliant policies will increase the value of investments and the revaluation reserve by at least \$65.2 million. There are no legal implications.

STAFF RECOMMENDATIONS

It is recommended that the following changes be made:

- (a) A new note be added:
 "Shares in subsidiaries and associates"
 Shares in Christchurch City Holdings Limited, Christchurch City Facilities Limited and Jade Stadium Limited are revalued with sufficient regularity to ensure that no investments are included at a valuation that is materially different from fair value.
- (b) The note "Changes in accounting policies" be amended to reflect this new policy and the \$ impact to the investments and revaluation reserve.
- (c) Note G "Depreciation" be amended as follows:
 Delete "Restricted Assets are not depreciated except for Historic Buildings, Artworks and Heritage Assets that are depreciated on a straight line basis at 1%, 0.1% and 0.1% respectively."
 Add:

"Restricted Assets	
Planted areas	5 to 110 yrs
Reserves - sealed areas	10 to 40 yrs
Reserves - structures	25 to 150 yrs
Historic buildings	100 yrs
Art works	1000 yrs
Heritage assets	1000 yrs"
- (d) Note I "revenue recognition" be amended by adding: "development contributions are recognised in the income statement in the year in which they are received".

9. CHANGES TO NZ IFRS - COMPLIANT ACCOUNTING POLICIES

General Manager responsible:	General Manager Corporate Services, DDI 941-8540
Officer responsible:	Corporate Finance Manager
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PURPOSE OF REPORT

1. The purpose of this report is to make recommendations to the Audit and Risk Subcommittee regarding changes to the current NZ IFRS-compliant accounting policies for the LTCCP and with respect to future years

EXECUTIVE SUMMARY

2. It is recommended that the policies adopted in February 2006 be amended to classify "other" financial instruments as "available-for-sale". This change is required due to a change in meaning of the term "fair value through profit or loss" in NZ IAS 39. The change was introduced as there was concern that entities may manipulate their earnings by designating certain assets as "fair value through profit or loss" with changes in value flowing through the income statement. Designation as "available-for-sale" will mean that changes in the value of these financial instruments will be put to a reserve in equity, until the instrument is sold or disposed of, when the cumulative gain/loss recognised in equity will be recognised in profit or loss.
3. The note detailing rates of depreciation on restricted assets does not consider planted areas, sealed areas within reserves or structures within reserves. It is proposed that the note be expanded to include those areas.
4. The revenue note makes no mention of development contributions. It is proposed that it be amended to correct this.

FINANCIAL AND LEGAL CONSIDERATIONS

5. Adopting the change to the NZ IFRS-compliant accounting policies will have a negligible impact on the Council's profit and loss and balance sheet, and is required in order to comply with NZ IAS 39.

STAFF RECOMMENDATIONS

It is recommended that the following changes be made:

- (a) The Investment note (i) be changed as follows:
Delete:
"(i) Council investment in subsidiaries"
Add:
(i) "Investment in subsidiaries and associates
For the purposes of the parent company financial statements, the Council's equity investments in its subsidiary companies are designated as available-for-sale financial assets. They are measured at fair value, with valuations performed by an independent, external valuer with sufficient regularity to ensure no investments are included at a valuation that is materially different from fair value. The valuation changes are held in a revaluation reserve until the subsidiary is sold."
- (b) The Investment note "(ii) Investments in debt and equity securities" be changed by deleting the sentence:
"Other financial instruments held by the Council are classified as being fair value through profit or loss and are stated at fair value, with any resultant gain or loss flowing through the income statement", and replacing with:
"Other financial instruments held by the Council are classified as being available for sale and are stated at fair value. The valuation changes are held in a revaluation reserve until the instrument is sold."

9 Cont'd

- (c) The note on "Property, plant and equipment" be amended as follows:
Delete "Restricted assets are not depreciated except for historic buildings, artworks and heritage assets that are depreciated on a straight line basis at 1%, 0.1% and 0.1% respectively."
Add:
"Restricted Assets
Planted areas 5 to 110 yrs
Reserves - sealed areas 10 to 40 yrs
Reserves - structures 25 to 150 yrs
Historic buildings 100 yrs
Art works 1000 yrs
Heritage assets 1000 yrs"
- (d) Note 22 "Revenue Recognition" be amended by adding: "(vii) Development contributions are recognised in the income statement in the year in which they are received."

10. NEXT MEETING

Late August.